

VZCZCXRO2531
PP RUEHDE RUEHDH
DE RUEHAS #0705/01 2021509
ZNY CCCCC ZZH
P 211509Z JUL 09
FM AMEMBASSY ALGIERS
TO RUEHC/SECSTATE WASHDC PRIORITY 7727
INFO RUEHHH/OPEC COLLECTIVE PRIORITY
RUEHBP/AMEMBASSY BAMAKO PRIORITY 1000
RUEHEG/AMEMBASSY CAIRO PRIORITY 1228
RUEHNK/AMEMBASSY NOUAKCHOTT PRIORITY 6776
RUEHFR/AMEMBASSY PARIS PRIORITY 3147
RUEHRB/AMEMBASSY RABAT PRIORITY 2794
RUEHTRO/AMEMBASSY TRIPOLI PRIORITY
RUEHTU/AMEMBASSY TUNIS PRIORITY 7659
RUEHCL/AMCONSUL CASABLANCA PRIORITY 3679
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 ALGIERS 000705

SIPDIS

E.O. 12958: DECL: 07/21/2019

TAGS: [PREL](#) [ENRG](#) [EPET](#) [EINV](#) [OREP](#) [AG](#)

SUBJECT: MIXED MESSAGES ON ALGERIAN INVESTMENT CLIMATE

ALGIERS 00000705 001.2 OF 003

Classified By: Ambassador David D. Pearce for reasons 1.4 (b) and (d).

¶1. (U) SUMMARY: The Members of CODEL Schiff heard mixed-messages regarding Algeria's investment climate during a visit June 30 and July 1. Government officials at once spoke of their desire to see more US companies investing in Algeria outside of the hydrocarbons sector, while describing new restrictions on foreign investors and the need to limit imports. CODEL members told Algerian parliamentary leaders that the US was interested in expanding bilateral commercial ties outside of the hydrocarbon sector, but emphasized the need for a level playing field. Their counterparts at Parliament replied that the new investment policies were designed to help Algerian companies better compete, and that foreign investor concerns have been exaggerated in the press. The secretary general of the energy ministry outlined myriad new projects designed to expand Algeria's gas production, insisting that Algeria's hydrocarbons sector remained attractive to international companies as the ministry launches a new bid round. Executives from a US-based energy company reported, however, that Algeria's ever-changing investment and operating rules constrained investment and limited the price companies are willing to pay for the opportunity to work here. END SUMMARY.

¶2. (U) Representatives Adam Schiff (D-CA), Cliff Stearns (R-FL), Gene Green (D-TX), Solomon Ortiz (D-TX), and Donald Manzullo (R-IL) visited Algiers June 30 - July 1. The CODEL was treated to a traditional Algerian dinner by the president of the foreign affairs commission of the Algerian lower house (APN) and met with members of Algeria's parliament at the APN building. They also were shown the APN chamber as leadership elections took place. The CODEL discussed energy issues with the energy ministry's secretary general and with executives of a US-based oil company.

DID THEY TRANSLATE THAT RIGHT?

¶3. (C) Reguig Bentabet, president of the foreign affairs commission of the Algerian lower house of parliament (APN), hosted the entire delegation to a traditional Algerian dinner June 30, giving CODEL Members a chance to speak informally with their Algerian counterparts. Conversations often gravitated toward Algeria's business and investment climate, and CODEL Members noted later that some of the messages they heard seemed confusing or even contradictory. Algeria remained open to foreign investors, they were told, but the

government must also take steps to support Algerian businesses, limit the influence of foreign companies in Algerian markets, and reduce imports. Their hosts also described new rules that restrict foreign investors to a position of minority shareholder in major projects and require a 30-percent Algerian partner in import/export activities. The irony was not lost on the CODEL Members, prompting one to ask us later to confirm what he believed he had heard because he assumed the translator had made a mistake.

14. (C) APN president Abdelaziz Ziari told the CODEL during a meeting at the APN building July 1 that Algeria remained keenly interested in expanding bilateral commercial ties with the US beyond the hydrocarbon sector, going so far as to say that the "ease of investment here" made Algeria an attractive market. Rep. Ortiz said he wanted to see more US companies do business in Algeria, but attracting investors required a level playing field. Rep. Manzullo added his concerns that foreign companies are taxed at a higher rate than Algerian firms. Ziari defended the new investment policies, but also suggested that the application of the rules could be adjusted, if necessary. APN Vice President Chiheb Seddick, however, insisted that foreign investors' concerns about the investment rules were inflated, noting that foreign firms were traditionally only interested in Algeria's hydrocarbon sector, but that the global financial crisis has forced them to diversify. Thus, he said, "it is for them to make the first step."

NEW OPPORTUNITIES IN GAS AND SOLAR

15. (C) Ministry of Energy and Mines Secretary General Faycel
ALGIERS 00000705 002.2 OF 003

Abbas summarized for the CODEL on July 1 the breadth of Algeria's hydrocarbons sector and highlighted several new areas of development. Abbas told the group that changes to Algeria's oil and gas law in 2005 and 2006 created a transparent market for all companies to operate within, and stressed that many American firms are involved in the hydrocarbons sector here. Abbas described Algeria's goal to expand its natural gas production in the Adrar region, and highlighted new pipelines that will export gas to Europe. But he also stressed that the Ministry must meet anticipated increased domestic demand, which he called a priority. Abbas admitted that the December 2008 oil and gas bid round fell short of hopes, but told the group that a new round was being launched as he spoke to the CODEL. Abbas also noted that Sonatrach continues to expand into foreign markets, including several African countries and a new gas field in Peru.

16. (C) Abbas told the CODEL that Algeria would like to take better advantage of solar energy for power generation. In addition to the 150 megawatt gas/solar hybrid plant already in use, Abbas said eight villages are being powered with solar technology, and 16 similar projects are planned. He said he anticipates further solar projects, and said the technology should be part of Algeria's overall plan to generate electricity for both domestic use and to export to Europe. Abbas said his ministry is spearheading a national strategy for both energy conservation and the development of renewable energy. He said there is some long-term interest in nuclear technology for energy production, but his ministry is still preparing a law on the peaceful development of nuclear power, and he noted the bilateral cooperation that exists between Algeria and the US in this area.

BUREAUCRACY TAINTS BLACK GOLD

17. (C) Norman Benson and Duncan Godsmark of US-based energy firm Anadarko briefed the CODEL July 1 on the problems foreign companies face doing business in Algeria. Anadarko was one of the first international oil companies to operate

in Algeria, and Benson said revenue from Algerian operations represents ten percent of Anadarko's total income. Benson told the CODEL that it has become increasingly difficult to do business in Algeria, even for companies like Anadarko with well-established track records. Benson lamented that onerous bureaucratic requirements, punitive tax structures for foreign firms, and ever-changing investment and operating rules have constrained investment opportunities. "The fiscal regime limits the price one is willing to pay for the opportunity to be here," he said. Because of the age and nature of its concessions, Anadarko has been particularly affected by Algeria's 2006 windfall profits tax, for which the company and Sonatrach are engaged in arbitration.

18. (C) Godsmark asserted that Algeria's bureaucracy was eroding business opportunities. He told Representative Green that after 20 years in Algeria the company has been successful in exploration and development, but remains unable to leverage that historical success. "We should have a comparative advantage in this market, but frankly, we don't," he said. Godsmark and Benson said that one of the greatest difficulties they face is the lack of consistency in the application of the rules the government expects companies to follow. Benson told the delegation that decision-making is plagued by a lack of coordination between various ministries and a lack of consistent enforcement. For example, Godsmark recalled a case in which an unexpected change in customs regulations required Anadarko to re-import an entire drilling rig after it had already been delivered to Algeria, significantly delaying operations and driving up costs.

19. (U) COMMENT: The mixed messages CODEL Schiff heard regarding investment opportunities in Algeria are understandable, given the fact that the new rules requiring Algerian partners have never been codified and are still being fleshed out, and that some elements, such as a ban on imported pharmaceuticals, have been generated from individual ministries rather than coordinated in an inter-ministerial mechanism. We believe some of the rules will be written into the supplementary budget bill expected to be revealed in the coming weeks. In the meantime, we expect foreign companies will be hesitant to venture into new large investments here

ALGIERS 00000705 003 OF 003

without a clear understanding of the ground rules. Furthermore, international energy companies will likely be wary of the new oil and gas bid round unless the GOA has demonstrated that it adapted lessons learned from the December 2008 experience and is willing to provide better terms for exploration and development contracts. END COMMENT.

110. (U) This cable was not cleared with any members of the CODEL Schiff delegation.
PEARCE